

6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357

Labor Environmental Factors

2

3 **Q. WHAT ARE BA-NY'S LABOR ENVIRONMENTAL FACTORS?**

4 A. Based on an analysis performed by NERA, BA-NY includes in
5 its study additives to labor costs in order to account for
6 what it claims are differences between the standard labor
7 times included in ECRIS and the actual recorded labor times
8 to complete work operations. Statewide, the NERA analysis
9 results show that reported work times exceed standard labor
10 times by approximately 37%. In Manhattan, reported times
11 exceed standard times on average by 59%.

12 **Q. WHY HAS BA-NY INCLUDED THESE LABOR ENVIRONMENTAL FACTORS?**

13 A. BA-NY claims that the ECRIS standard work times do not
14 account for all of the costs that BA-NY actually incurs in
15 performing outside plant work, although according to the
16 panel testimony, standard work times do include times for
17 travel, set-up time and the time associated with placement
18 and splicing work operations. The real effect of the
19 proposed labor environmental factors is to convert forward
20 looking efficient costs into embedded costs. Although the
21 NERA report adequately describes its statistics-based
22 analysis, the analysis is fatally flawed because the
23 hypothesis tested - that variances by operations district

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

are caused by the environment, rather than inefficiencies -
is incorrect. The result is the following equation:

$$\sum_n^{i=1} STI_i \times \frac{\sum_{i=1}^n EMB_i}{\sum_n^{i=1} STI_i} = EMB_{Total}$$

Where: STI = Standard Time Increment
Efficient Cost
 EMB = Embedded Cost

Q. DOES THE PANEL HAVE ANY HANDS-ON FAMILIARITY WITH ECRIS?

A. Yes. In fact, Mr. Donovan invented the initial version of ECRIS in 1989 and 1990, while Director of Operations in Albany, New York. That system was adopted for use and enhancement, under his direction as Managing Director, Engineering & Construction Methods and Systems from 1991 through 1994. The ECRIS system is a sophisticated tool to price construction operations in terms of both hours and dollars, to schedule construction operations, report results, and measure efficiency. BA-NY admits that installation costs in ECRIS are developed by applying the standard time increments developed by H.B. Maynard & Associates to the work operations performed by Company personnel in installing outside plant. [See BA-NY Response to ATT-BA-113.] The Company's engagement with Maynard began in 1993 and is still ongoing. [See BA-NY response to ATT-BA-115.]

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 Q. IS IT APPROPRIATE TO USE THE SAME STANDARD TIME INCREMENTS,
2 AS ADVOCATED BY H.B. MAYNARD ASSOCIATES, FOR THE SAME WORK
3 OPERATION IN DIFFERENT DISTRICTS THROUGHOUT THE STATE?

4 A. Yes. Maynard industry standard work times are developed
5 using their proprietary work measurement techniques which
6 are applied to elemental human work movements such as
7 turning a screw a certain number of times or moving a heavy
8 object a certain number of feet. [See BA-NY response to
9 CA-BA-36.] There is no reason why such elemental work
10 times should be different, absent inefficiencies.

11 Q. DOES ECRIS HAVE A METHOD TO CARE FOR "ENVIRONMENTAL"
12 UNIQUENESS.

13 A. Absolutely. ECRIS was designed to price jobs based on
14 hours and dollars, as well as to schedule the construction
15 work force and measure productivity. Not only are area
16 specific travel times built into the database, additional
17 factors are built into the system as well, such as the need
18 for extra work steps and an appropriate number of
19 technicians for the work site. Without such customization
20 by area, the Scheduling module of ECRIS would be a sham.

21 Q. DOES THE NERA REPORT RECOGNIZE THE FACT THAT ECRIS ACCOUNTS
22 FOR SUCH INFORMATION?

23 A. Yes. The NERA report notes that the record of each WKOP
24 (Work Operation) included:

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

- 1 • Estimated Expected Time - the amount of time ECRIS
2 calculated a WKOP should take (including the
3 engineers' modifications as described below)
 - 4 • Adder Hours - the number of adder hours entered by
5 the engineer
 - 6 • Variable-Standard Time Increment (STI) Hours - the
7 number of Variable-STI hours entered by the engineer
- 8 [NERA, *Environmental Costs of Bell Atlantic-New York's Loop*
9 *Plant at 5*]

10 **Q. DOES NERA CLAIM THAT ECRIS EXCLUDES ENVIRONMENTAL**
11 **CONDITIONS?**

12 **A. Not exactly. The NERA report states,**
13 ...either or both adjustments [Adder Hours and Variable-STI
14 Hours] could be used to account for the time required to
15 accommodate *environmental* cost elements of the job.

16
17 However, the NERA report also states that,

18 In reality, different engineers have
19 different levels of knowledge about such
20 issues and thus not every Estimated Expected
21 Time is so adjusted.
22

23 **Q. BASED ON YOUR EXPERIENCE AND KNOWLEDGE REGARDING THE USE OF**
24 **ECRIS, DO YOU AGREE WITH NERA'S ASSESSMENT OF POOR ECRIS**
25 **ADJUSTMENTS?**

26 **A. Absolutely not. ECRIS is used extensively as a**
27 productivity measurement tool. Engineering and
28 construction managers normally have the same productivity

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

objectives, so that work will hopefully be engineered in a productive way, and constructed in a productive way. The productivity measurements are kept simple to prevent extensive manipulation by field managers. However, appropriate "adders" are allowed, and I assure you that if an engineer forgot to include such an "adder", the construction manager would be quick to reply. Construction managers are especially motivated to assure that highest credits are included, as a portion of their annual salaries are normally pegged to STI performance measures.

Q. HOW AND WHY WERE BA-NY'S ECRIS STANDARDIZED TIMES DEVELOPED?

A. BA-NY commissioned a special study by H. B. Maynard and Company to develop an unbiased view of New York specific standardized work time estimates. Using state-of-the-art measurement techniques, Maynard worked closely with BA-NY to develop standard work times for a variety of outside plant related activities. Maynard was commissioned to develop standard work time estimates so that BA-NY would, through ECRIS, be able to reliably schedule outside plant construction operations, report results and measure the efficiency of the outside plant labor force.

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 Q. IF THE LABOR TIMES IN ECRIS WERE DEVELOPED BY EXPERTS IN
2 THE FIELD AND APPROVED BY BA-NY FOR ADOPTION IN ECRIS, DOES
3 ANY BASIS EXIST FOR A SEPARATE ADJUSTMENT?

4 A. No basis exists for such an adjustment. Consequently, BA-
5 NY's labor environmental factor should be rejected. First,
6 the standardized labor times in ECRIS represent the amount
7 of time in which an efficient provider should be required
8 to perform specific tasks. Any time in excess of that time
9 is, by definition, inefficient and the cost of such
10 inefficiencies cannot be imposed upon the CLECs. Second,
11 the labor times in ECRIS do not consider the economies of
12 scale that a new entrant, building a scorched node network
13 to serve BA-NY's existing demand, would be able to achieve.
14 Unlike the comparatively smaller jobs for which the ECRIS
15 times are developed, under the TELRIC construct,
16 construction crews would not, for example, need to travel
17 great distances in heavy downtown traffic from job to job.
18 Instead, the construction jobs would be contiguous,
19 emanating from the central office ultimately to the
20 furthest customer from the CO. Indeed, a factor that
21 reduces labor times is more appropriate in the context of
22 the forward-looking network to be costed in this case.
23 Finally, BA-NY applies the labor times from ECRIS to its
24 actual hourly labor rates. This is plainly incorrect since

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

BA-NY's hourly labor rates already reflect a high proportion of non-productive time. BA-NY reports in its responses to ATT-BA-20 and ATT-BA-23 that the ratio of non-productive to productive straight-time for BA-NY job codes is 22%. This means that for each labor dollar included in BA-NY's cost study, \$0.22 is attributable to non-productive time. For overtime, BA-NY reports that its ratio of non-productive to productive time is a staggering 73%. Accordingly, in my restatement of BA-NY's study, I eliminated BA-NY labor environmental factor adjustment.

Forward-Looking Network Adjustment Factor

Q. IS BA-NY'S FORWARD-LOOKING TO CURRENT FACTOR CONSISTENT WITH TELRIC PRINCIPLES?

A. No. We believe BA-NY's forward-looking to current factor is a thinly veiled attempt to recoup its embedded, inefficient operating costs. It should be rejected.

Q. BA-NY ARGUES THAT SUCH AN ADJUSTMENT IS NECESSARY BECAUSE THE EXPENSE FACTORS ARE BASED ON CURRENT EXPENSE TO INVESTMENT RATIOS AND, ON THAT BASIS, LOWER TELRIC INVESTMENT LEVELS WILL EFFECTIVELY PRODUCE A WINDFALL REDUCTION IN EXPENSES. DO YOU AGREE?

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 A. Absolutely not. BA-NY is only looking at one side of the
2 coin. In fact, because TELRIC envisions a new least cost,
3 efficient, forward-looking technology-based network built
4 today to serve current demand, many of the embedded BA-NY
5 inefficiencies produced by continuing labor intensive
6 efforts to push technologically obsolete equipment to serve
7 increasing demand will not exist in the forward-looking
8 environment. Moreover, as telephone technology improves
9 and the equipment becomes more sophisticated, it also
10 becomes less labor intensive and more "user friendly" to
11 operate and maintain. In contrast to BA-NY's embedded cost
12 approach, these facts actually support a forward-looking
13 network adjustment factor that reduces forward-looking
14 operating expenses.

15
16 **Asset Lives**

17 **Q. HAVE YOU MADE CHANGES TO THE ASSET LIVES AND NET SALVAGE**
18 **VALUES USED BY BA-NY?**

19 A. Yes, we adjusted the BA-NY asset lives and net salvage
20 values to those most recently prescribed for BA-NY by the
21 FCC.

1 Cost of Capital

2
3 Q. HAVE YOU MADE CHANGES TO THE COST OF CAPITAL AND CAPITAL
4 STRUCTURE THAT BA-NY USES IN ITS STUDY?

5 A. Yes. Consistent with Mr. Hirshleifer's testimony, we
6 adjusted the BA-NY cost of debt, cost of equity and the
7 capital structure to be used in developing BA-NY's forward-
8 looking economic costs to provide UNEs.

9
10 Special Pension Enhancements and Merger Related Savings

11
12 Q. IS BA-NY'S INCLUSION OF SPECIAL PENSION ENHANCEMENT IN ITS
13 STUDY CONSISTENT WITH TELRIC PRINCIPLES?

14 A. No, it conflicts squarely with TELRIC. BA-NY has included
15 in its common overhead factor costs that it projects it
16 will incur to provide both its management and union
17 employees with an incentive to leave the payroll
18 voluntarily. BA-NY estimates these costs will average \$400
19 million annually for the foreseeable future and includes
20 the wholesale portion of this amount as a forward-looking
21 additive to the common overhead factor. These costs, plain
22 and simple, are costs that BA-NY must absorb to rid itself
23 of excess inefficient layers of management and union
24 employees in order to compete effectively in the future.
25 They are not costs that would be incurred by an efficient,

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 forward-looking entrant constructing and operating a
2 network today to serve current demand and, as such, should
3 again be rejected.

4 **Q. BA-NY's PANEL TESTIMONY ADMITS THAT THESE COSTS HAVE BEEN**
5 **REJECTED IN PRIOR PROCEEDINGS, BUT SUGGESTS CIRCUMSTANCES**
6 **ARE DIFFERENT THIS TIME AND THAT THE SPE COSTS SHOULD BE**
7 **INCLUDED. IS BA-NY CORRECT?**

8 **A.** No. BA-NY argues here that these costs were rejected
9 previously because "possible offsetting savings" resulting
10 from the expenditure of these costs would also need to be
11 included. In what amounts to the equivalent of a TELRIC
12 "bait and switch," BA-NY includes a modest measure of
13 anticipated future merger related savings. Unfortunately,
14 but not surprisingly, the anticipated savings included by
15 BA-NY are only a fraction of the costs that BA-NY would
16 have the Commission believe need to be expended to achieve
17 these savings. Specifically, BA-NY is proposing a 4.96%
18 additive to all UNE costs to help defray its SPE
19 expenditures, but will concede a 1.55% reduction for future
20 anticipated merger savings. This nets to an overall
21 proposed 3.41% increase in UNE costs. Thus, BA-NY's
22 argument that SPE expenditures are properly included here
23 because "offsetting" savings have also been included is
24 without merit.

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 **Q. BA-NY ARGUES REPEATEDLY THAT SPE COSTS MUST BE INCURRED IN**
2 **ORDER TO EFFECT WORK FORCE REDUCTIONS. DO YOU AGREE?**

3 **A. No. Here BA-NY is unable to extricate itself from the**
4 **embedded, inefficient world in which it functions. The**
5 **part that BA-NY does not get is that, on a forward-looking**
6 **basis, those employees that are not needed (i.e., those to**
7 **which BA-NY must pay huge sums to coax off the payroll)**
8 **would never be hired by an efficient forward-looking**
9 **entrant. SPE costs are nothing more than BA-NY's desperate**
10 **leap at having CLECs help defray its own legacy costs and**
11 **should be rejected again. Accordingly, we have eliminated**
12 **these SPE costs in our restatement of BA-NY's cost study.**

13 **Q. BA-NY ALSO INCLUDES AN ADJUSTMENT IN ORDER TO REFLECT THE**
14 **ANTICIPATED FUTURE SAVINGS RESULTING FROM THE BA/NYNEX**
15 **MERGER. ARE THESE SAVINGS PROPERLY INCLUDABLE IN TELRIC**
16 **COSTS?**

17 **A. Yes. The UNE operating expenses are developed based on the**
18 **ratio of 1998 operating expenses to 1998 investment. To**
19 **the extent that the 1998 operating expenses have not yet**
20 **been purged of all embedded inefficiencies and BA-NY has**
21 **already quantified the level of merger savings, those**
22 **merger savings should be reflected on a forward-looking**
23 **basis.**

1 Repeat Repairs

2
3 Q. PLEASE SUMMARIZE YOUR RECOMMENDATION FOR TREATING THE COSTS
4 CAUSED BY POOR QUALITY OF BA-NY'S WORKMANSHIP AND
5 INEFFICIENT WORK PROCESSES.

6 A. Poor BA-NY work quality and inefficient work processes
7 produce rework that increases costs throughout BA-NY's
8 operations. We recommend that the costs for one component
9 of poor quality of workmanship, repeat repairs, be removed
10 from the embedded 1998 costs that are the starting point
11 for BA-NY's network ACF development. The costs associated
12 with repeat repairs are caused by poor BA-NY workmanship,
13 are not efficiently incurred, and must be removed in order
14 to comply with TELRIC principles.

15 Q. PLEASE PROVIDE A MORE DETAILED EXPLANATION AS TO WHY REPEAT
16 REPAIRS MUST BE REMOVED FROM BA-NY'S NETWORK ACFS.

17 A. Repeat repairs indicate poor BA-NY workmanship and
18 inefficient processes. Consequently, these costs should
19 not be included in a TELRIC study. If BA-NY had fixed
20 underlying problems properly, it would have incurred lower
21 total repair costs. As the Commission explains on page 8
22 of its Fourth Quarter 1999 and Calendar Year 1999 Service
23 Quality Report for New York Telephone, "A third major
24 factor which influences CTRR [customer trouble report

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 rates] is the quality of repair work. One of the ways to
2 gauge quality of repairs is to measure the 'repeated'
3 trouble report rate. A 'repeated' trouble is one which a
4 customer registers within 30 days after a previous trouble
5 has been considered fixed by the company. Repeated reports
6 often signify that the company's previous repair efforts
7 did not fix the underlying problem properly."

8
9 On Page 34 of BA-NY's Panel Testimony revised 2/24/00, BA-
10 NY reiterates the FCC's definition of forward-looking costs
11 by stating that, "The FCC's regulations define recoverable
12 "forward-looking common costs" as "economic costs
13 efficiently incurred in providing a group of elements or
14 services . . . " [emphasis added]. Because the costs
15 associated with repeat repairs signify that they are not
16 efficiently incurred, they must be removed from the
17 development of BA-NY's Network ACFs.

18 **Q. PLEASE DESCRIBE HOW YOU HAVE ESTIMATED, AND REMOVED THE**
19 **COST OF REPEAT REPAIRS FROM BA-NY'S COST STUDY**

20 **A.** Repeat repair costs are quantified based on taking BA-NY
21 provided data of the total cost of repairs in 1998 and
22 applying a percentage estimate of repeat repairs to total
23 repairs. The estimate is calculated based on the number of
24 repeat trouble reports to initial-plus-repeat trouble

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 reports as provided in the BA-NY Service Quality Reports.
2 As we show on ATTACHMENT 4 to this reply testimony, repeat
3 repair rate is estimated to be 16%. Because the costs for
4 repeated repairs are included in the 1998 cost that BA-NY
5 has relied upon to develop its claimed UNE costs, these
6 costs must be removed. On page 74 of its panel testimony,
7 BA-NY states that, "The starting point for the Network ACF
8 is the set of expenses that have been incurred in 1998 for
9 repairing and rearranging our plant and equipment." This
10 starting point is provided in excel file
11 PART_H_SECT_2.1_NTWK_REV.xls, sheet '9."R"', column D. BA-
12 NY makes two adjustments to these costs, neither of which
13 removed repeat repair costs. The first adjustment removes
14 revenues associated with Pole Adjustments. The second
15 adjustment reduces the embedded repair costs by a
16 percentage to account for fewer repairs associated with
17 newly placed plant. This adjustment is explained on Page
18 76 of its panel testimony revised 2/24/00, where BA-NY
19 states, "The percentage of trouble report disposition codes
20 related to outside troubles in 1998 that were due to
21 defective/deteriorated plant and equipment was multiplied
22 by an expected percentage reduction in these troubles."
23 This percentage adjustment reduces repair costs across the
24 board but does not remove the costs for repeat repairs.

6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357

1 And, there exists no reason to suggest that the repeat
2 repair rate would fall with newly placed plant since the
3 repeat repair rate is, in this Commission's words,
4 reflective of quality of workmanship, rather than age of
5 plant.

6
7 We have removed the cost of repeat repairs by multiplying
8 1-minus-the occurrence of repeat repairs by the adjusted R
9 expenses shown in column G for the accounts AerM, UdgdM,
10 BurM, and InBldgM. These adjustments are shown and
11 explained in our revision to BA-NY's workpapers attached to
12 this reply testimony as ATTACHMENT 5. Note that these
13 adjustments eliminate only estimated direct costs for
14 repeat repairs for only certain plant accounts. We have
15 not corrected other accounts for occurrences of repeat
16 repairs. Nor have we extrapolated how repeat repairs and
17 poor work quality increase other indirect costs throughout
18 BA-NY's entire organizational structure. Consequently, we
19 believe that our method of adjusting BA-NY's repair costs
20 may well underestimate the adjustments that should be made
21 to BA-NY's cost study in order to ensure that all of its
22 claimed UNE costs are efficiently incurred.

1 Retail Avoided Costs

2

3 Q. PLEASE SUMMARIZE YOUR ASSESSMENT OF BA-NY'S RETAIL AVOIDED
4 COST STUDY.

5 A. BA-NY's retail avoided cost study is seriously flawed since
6 it does not properly exclude access expenses; does not
7 consider the avoidance of marketing; nor does it consider
8 whether or not BA-NY offers OS/DA services.¹⁹ In summary,
9 BA-NY has understated substantially the percentage of
10 retail avoided costs in a wholesale environment.

11 Q. WHAT IS THE PROCESS THAT YOU USED TO REVIEW BA-NY'S RETAIL
12 AVOIDED COST STUDY?

13 A. We have reviewed the retail avoided cost study considering
14 its application to the re-examination of UNE rates in this
15 proceeding. We have not reviewed it in the context of
16 developing a revised TSR discount, and do not offer an
17 updated TSR discount. We have corrected BA-NY's treatment

¹⁹ To offer some clarification about how BA-NY's cost study addresses marketing expenditures, note that the cost study addresses marketing costs (product management, advertising, sales and customer service) in two different places. Once in the retail avoided cost study, which is provided in spreadsheet "PART_H_SECT_3.12.1_RetailAvoidedCost.xls"; and again in the development of the marketing annual cost factor, which is provided in worksheet titled, 'Sect 3.15.1' included in separate excel file titled, "PART_H_SECT_3&5_MISC & SUPPORT.xls."

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 of just some of the many accounts in its cost study, namely
2 access, marketing (advertising and product management), and
3 OS/DA expenses.

4 **Q. WHAT ARE THE DIFFERENT CATEGORIES OF ACCESS EXPENSES**
5 **INCLUDED IN BA-NY'S RETAIL AVOIDED COST STUDY, AND WHY**
6 **SHOULD THESE EXPENSES BE CONSIDERED AVOIDABLE IN A UNE**
7 **WHOLESALE ENVIRONMENT?**

8 **A.** Access Expenses fall into two categories. The first
9 includes expenses for Universal Service Fund, including the
10 High Cost Fund (function code T60B), the Low Income Fund
11 (function code T60C), the School and Library Fund (function
12 code T60D), and the Health Care Fund (T60E)²⁰. All of these
13 USF expenses must be considered avoidable because they are
14 assessed on a basis of retail, end-user revenues. As a
15 wholesale-only provider of UNEs, BA-NY would not have any
16 retail, end-user revenues and would not have to pay these
17 contributions.

18 The second category of access expenses²¹ are the non-USF
19 access expenses. Included are a broad amount of access
20 expenses and some of these expenses are potentially

²⁰ See excel file "Part_H_Sect_3.12.1_RetailAvoidedCost.xls," sheet
'Tab_2-Avoided Costs,' Lines 562-565.

²¹ See excel file "Part_H_Sect_3.12.1_RetailAvoidedCost.xls," sheet
'Tab_2-Avoided Costs,' Lines 567-574.

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 avoided. BA-NY, however, was unable to provide us any
2 detailed documentation at the function code detail level
3 that would allow us to understand the nature of these
4 expenses. Consequently, we do not treat any of these
5 expenses as avoided.

6 **Q. PLEASE EXPLAIN WHAT AMOUNT OF BA-NY'S ADVERTISING EXPENSES**
7 **SHOULD BE CONSIDERED RETAIL AVOIDED?**

8 **A.** 100% of BA-NY's advertising costs should be considered
9 retail avoided. BA-NY's proposal to include any
10 advertising costs in the development of its claimed UNE
11 costs is absurd and should be rejected outright. Lee
12 Globerson said it best in his Rebuttal Testimony dated
13 10/15/96 in Case 95-C-0657. He stated, "Thus, it appears
14 that NYT's competitors would have the dubious distinction
15 of paying, not once, but twice for advertising. Once to
16 NYT, and once again through their own advertising channels.
17 AT&T does not require NYT advertising of any type in order
18 to determine from which LEC to purchase NYT UNEs."
19 BA-NY states on page 85 of its Panel Testimony revised
20 2/24/00 that "In fact, the Company's Carrier Services
21 organization has several times taken out full page ads in
22 *Telephony* magazine advertising directly to our wholesale
23 customers." When asked in ATT-BA-190 to produce these ads,

6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357

1 BA-NY provided two ads. See ATTACHMENT 6 to this reply
2 testimony. The two ads BA-NY relies upon for supporting
3 the inclusion of advertising costs, however, promote
4 services that are not UNEs. The first promotes BA's
5 billing and collection services. The second promotes a
6 combined voice/data network, for which UNE rates are not
7 even being established. In the ad, BA states, "Bell
8 Atlantic is also committed to investing in a next
9 generation, data packet-switched long distance data
10 network. In June, the company announced a 5-year contract,
11 valued at more than \$200 million, to build a backbone voice
12 data network. Construction began in July, and delivery of
13 services over this new network will start as early as
14 January 1999. The new network will incorporate advanced
15 technologies, designed around the needs of the data
16 customer." [emphasis added] BA-NY provides further
17 description of this network, at [http://www.bell-](http://www.bell-atl.com/invest/news/IRG99/2_Telecom.pdf)
18 [atl.com/invest/news/IRG99/2 Telecom.pdf](http://www.bell-atl.com/invest/news/IRG99/2_Telecom.pdf) and states on page
19 20 that, "The evolution to the full service ATM switched
20 broadband network will significantly reduce operating
21 expense through automated provisioning and activation
22 processes, increase capacity availability, and result in an
23 even more flexible and low-cost delivery platform."
24 Effectively, BA-NY would like its competitors to pay for

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 its advertisements for a network that its competitors will
2 not be able to lease through UNEs, and which may be more
3 cost effective than the network construct used to set UNE
4 rates. In short, BA-NY's inclusion of advertising costs
5 for the development of its forward-looking economic costs
6 to provide UNEs must be rejected.

7 **Q. PLEASE EXPLAIN WHAT AMOUNT OF BA-NY'S PRODUCT MANAGEMENT**
8 **EXPENSES SHOULD BE CONSIDERED RETAIL AVOIDED?**

9 **A.** Close to all of BA-NY's product management expenses should
10 be considered retail avoided. BA-NY claims that only
11 49.73% of this account is retail avoidable²², yet a detailed
12 review of some of the function codes included in product
13 management show that close to 100% of BA-NY's product
14 management account should be considered avoided.
15 For example, BA-NY claims that expenses associated with
16 Function Code 0401 are not retail related. The description
17 that is provided on page 165 of BA-NY's response to
18 ATT-BA-13²³, however, states that these costs are the "Costs
19 of analyzing costs and revenues, developing rates and rate
20 case documentation, filing new or revised tariffs involving

²² See BA-NY's response to ATT-BA-189.

²³ Although BA-NY's response to ATT-BA-13 is labeled PROPRIETARY, BA-NY's Counsel concurs that the quoted descriptions set forth below do not require proprietary treatment.

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 exchange services." This amount must be considered almost
2 entirely avoided for two reasons. First, this account
3 includes the costs for maintaining retail tariffs. In New
4 York, the retail tariffs PSC No. 900 and 902 alone are
5 massive. They fill roughly 3 bookshelves. On the other
6 hand, the wholesale tariffs 914, 915, and 916 are much less
7 voluminous, filling roughly four binders combined. While
8 physical size cannot fully indicate how many resources are
9 consumed maintaining the retail tariff, clearly BA-NY must
10 spend a significant amount of resources maintaining it.
11 Second, the expenses associated with maintaining the
12 wholesale tariffs reflects behaviors that are not
13 appropriate for a wholesale-only company. BA-NY's
14 tariffing practices, and other regulatory practices,
15 reflect desires to limit sales of certain UNEs. For
16 example, on Sections 5.14.2.12 - 5.14.2.15 of BA-NY's PSC
17 No. 916 tariff, BA-NY provides language that serves to
18 restrict the usage of EELs, rather than make EELs widely
19 available. This section of the tariff is written to
20 protect BA-NY's Special Access revenue stream and does not
21 reflect the behavior of a wholesale-only carrier that
22 merely wants to increase sales. CLECs should not be
23 required to pay for any costs included in BA-NY's cost
24 study that a rational wholesaling company would not incur.

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 We estimate, therefore, that 90% of the expenses associated
2 with these accounts should be removed.

3 BA-NY claims that expenses associated with Function Codes
4 040A, 040E, and 041A are wholesale. The description that
5 is provided on page 166 of BA-NY's response to ATT-BA-13,
6 however, states that these costs are the "Costs of general
7 administration, support activities, e.g., methods, results,
8 personnel, office duties, and education and training of
9 rate and tariff activities." For the reasons stated above,
10 90% of the expenses associated with these accounts should
11 be considered avoided.

12
13 BA-NY claims that the expenses in Function Codes 060A and
14 060E are wholesale. The description that is provided on
15 page 174 of BA-NY's response to ATT-BA-13, however, states
16 that these costs are the "Cost of general and
17 administration and support services for Service Management
18 activities." From this definition, it is apparent that
19 these costs are associated with services. Under a TSR
20 environment where services are resold, it is possible that
21 some of these costs could be considered unavoidable. Under
22 a UNE environment, however, these costs should be
23 considered avoidable.

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 **Q. PLEASE DESCRIBE HOW OPERATOR SERVICES AND DIRECTORY**
2 **ASSISTANCE EXPENSES SHOULD BE TREATED IN THE CONTEXT OF BA-**
3 **NY'S RETAIL AVOIDED COST STUDY.**

4 **A. The treatment of OS/DA in BA-NY's retail avoided cost study**
5 **should be consistent with whether OS/DA services are**
6 **considered regulated or unregulated, and whether BA-NY does**
7 **or does not provide the OS/DA functionality to the CLEC.**
8 **If OS/DA services are considered unregulated services, then**
9 **OS/DA expenses should be reflected as unregulated in BA-**
10 **NY's retail avoided cost study. In BA-NY's filed retail**
11 **avoided cost study, BA-NY treats OS/DA services as 100%**
12 **regulated. Yet, in its testimony, BA-NY argues for pricing**
13 **freedom, saying on page 320 and 321 of the Panel Testimony**
14 **revised 2/24/00 that "This filing presents a competitive**
15 **pricing proposal for OS/DA. BA-NY continues to believe**
16 **that it should have significantly greater flexibility in**
17 **pricing non-UNE wholesale services (such as OS/DA) and that**
18 **these services should not be considered in an unbundled**
19 **elements proceeding." BA-NY also argues on page 327 that,**
20 **"As discussed above, the UNE Remand Order determined that**
21 **OS/DA was not an element precisely because of the numerous**
22 **alternative sources of supply available to CLECs. In this**
23 **environment, BA-NY's OS/DA is a competitive, non-essential**

6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357

1 service, and it should be priced in accordance with the
2 flexible pricing construct frequently approved by the
3 Commission for similar retail services." It appears
4 therefore that BA-NY would like to have OS/DA services
5 considered unregulated from a pricing perspective, but
6 regulated for purposes of lopping on more expenses onto the
7 already inflated UNE rates. The Commission should instead
8 require BA-NY to consistently approach the treatment of
9 OS/DA.

10
11 Even if OS/DA expenses continue to be categorized for
12 purposes of UNE rate development as regulated, the question
13 of whether these expenses are retail avoidable or not must
14 still be resolved. In its retail avoided cost study, BA-NY
15 claims that 0% of its OS/DA costs are avoided. This
16 assumes, however, that all CLECs will use BA-NY's OS/DA
17 services. This assumption is incorrect, and drives up the
18 rates for UNEs for those CLECs that choose not to use BA-
19 NY's OS/DA services. Instead, BA-NY should have calculated
20 the retail avoided discount two ways. First, under the
21 assumption that BA-NY provides OS/DA services; and second
22 assuming that BA-NY does not provide OS/DA services. This
23 view is consistent with the Commission's Order 96-30 issued
24 11/27/96.

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1

2 For purposes of this cost study, we have not modified BA-
3 NY's presentation and treatment of OS/DA costs, but note
4 that a discount should be provided to CLECs that choose not
5 to rely on BA-NY's OS/DA services. This discount can be
6 calculated by modifying BA-NY's retail avoided cost study
7 to assume that 100% of OS/DA services are avoided, and
8 flowing through those changes to the UNE rates through
9 reduced ACFs.

10 **Q. WHAT ARE THE RESULTS OF YOUR REVIEW AND ANALYSIS OF BA-NY'S**
11 **RETAIL AVOIDED COST STUDY?**

12 **A.** Our analysis shows that by correcting just some of the
13 major accounts in BA-NY's retail avoidable cost study, the
14 retail avoided percent increases from approximately 26.34%
15 to approximately 31.8%. It is important to note that we
16 have only reflected some of the many corrections that could
17 be made to BA-NY's retail avoided cost study. There are
18 several additional accounts that could be interpreted as
19 retail-related, but we have not adjusted these accounts.
20 Our adjustments are presented in ATTACHMENT 7 to this reply
21 testimony, which is a restatement of BA-NY's retail avoided
22 cost study. We have flowed the results of the corrected

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 retail avoided cost study through the rest of BA-NY's cost
2 model.

3
4 As is true for the rest of BA-NY's cost study, there are
5 several areas where it is extremely difficult to correct
6 and adjust the study fully. For example, Workpaper Part H,
7 Section 3.12.2, Page 1, Line 11 shows an avoided percent of
8 19.9% with no note describing where this hard-coded input
9 was lifted.

10
11 **Merger Savings That Will Result From The Forthcoming BA/GTE**
12 **Merger**

13
14 **Q. PLEASE DESCRIBE HOW THE COMMISSION SHOULD TREAT COST**
15 **SAVINGS THAT WILL RESULT FROM THE FORTHCOMING BELL**
16 **ATLANTIC/GTE MERGER.**

17 **A. The development of UNE rates in this proceeding must**
18 **consider whether the forthcoming GTE/BA merger will produce**
19 **cost savings incremental to Bell Atlantic's standalone**
20 **forward-looking environment. BA-NY's cost study fails to**
21 **recognize such savings.**

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 **Q. DO YOU BELIEVE THAT GTE AND BELL ATLANTIC WILL IN FACT**
2 **MERGE.**

3 **A. Yes. In a press release titled, "Bell Atlantic, GTE**
4 **Complete Merger Approvals at State Level," dated 3/2/00,**
5 **Bell Atlantic states "All 27 state commissions that**
6 **conducted proceedings on the merger have approved it. The**
7 **remaining 23 states declined to assert jurisdiction on the**
8 **merger." Also, "The U.S. Department of Justice has given**
9 **its clearance, as have shareholders of the two companies.**
10 **The merger also has received endorsements from the AFL-CIO,**
11 **the Communications Workers of America, the International**
12 **Brotherhood of Electrical Workers, and many national and**
13 **local community-based organizations." Finally, the FCC**
14 **gave conditional approval to the merger on 6/16/00 and Bell**
15 **Atlantic's post-approval press release suggests that Bell**
16 **Atlantic and GTE are planning to close the merger by the**
17 **end of June.**

18 **Q. PLEASE STATE WHY YOU BELIEVE THAT THE SAVINGS RESULTING**
19 **FROM THE FORTHCOMING GTE/BELL ATLANTIC MERGER WILL FLOW TO**
20 **BELL ATLANTIC'S NEW YORK WHOLESALE OPERATIONS.**

21 **A. Indirectly, BA-NY wholesale operations should quickly begin**
22 **to see costs savings, on top of its forward-looking**
23 **economic costs, from reductions in its corporate overhead**

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 expenses. In November of 1999, Bell Atlantic and GTE
2 announced the executive leadership of the combined firm.
3 Shortly after these announcements were made, additional
4 announcements detailed plans for executives to depart from
5 Bell Atlantic.

6
7 Example 1: Press release titled, "Bell Atlantic and GTE
8 Announce Leadership For Merged Company," dated 11/4/99
9 states that J. Randall MacDonald (formerly GTE) has been
10 designated executive vice president of Human Resources. A
11 separate press release announced that Donald J. Sacco, who
12 formerly had Human Resources and Labor Relations
13 responsibilities for Bell Atlantic, will retire upon
14 completion of the merger. See press release titled, "Bell
15 Atlantic Executive Donald Sacco to Retire At Close of GTE
16 Merger," dated 11/4/99. Sacco's departure due to the
17 merger is an example of overhead cost savings.

18
19 Example 2: Press release titled, "Bell Atlantic and GTE
20 Announce Leadership For Merged Company," dated 11/4/99
21 states that William P. Barr (formerly GTE) has been
22 designated executive vice president and general counsel.
23 Less than one month later, it is announced that former Bell
24 Atlantic general counsel James R. Young will leave Bell

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 Atlantic. See press release titled, "General Counsel James
2 R. Young To Leave Bell Atlantic Senior Regulatory VP Mark
3 J. Mathis Named Acting General Counsel," dated 12/13/1999.

4
5 Example 3: Press release titled, "Bell Atlantic and GTE
6 Designate Senior Executives for Merged Company," dated
7 1/28/00 states that Mary Beth Bardin (formerly GTE), will
8 be executive vice president - public affairs and
9 communications. Another press release announces the
10 departure of Morrison Webb (formerly Bell Atlantic
11 executive vice president - External Affairs and Corporate
12 Communications). See press release titled, "Bell Atlantic
13 Executive Morrison Webb to Leave At Close of GTE Merger,"
14 dated 11/4/99.

15
16 These press releases demonstrate that Bell Atlantic
17 executives will depart upon the completion of the merger.
18 Note that the examples provided above only reflect senior
19 executive position announcements and departures.
20 Leadership positions below the executive level have also
21 been announced. Presumably positions at these other levels
22 will be eliminated as well.

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 We believe that BA-NY's wholesale operations will also see
2 direct cost savings from the merger as a result of the
3 sharing of best practices. With regards to the likely
4 synergies in New York state, Bell Atlantic says it best in
5 press release titled, "New York State Approves Bell
6 Atlantic - GTE Merger" dated 3/16/99, when it states
7 "Through the merger of Bell Atlantic and NYNEX, we were
8 able to use the best practices of both companies to improve
9 our service, and we look forward to further improvements as
10 we combine operations with GTE."

11
12 Additionally, on page 5 of its order granting approval of
13 the merger, issued 8/12/99 in Case 98-C-1443, the
14 Commission stated that, "While Bell Atlantic and GTE did
15 not identify what portion of those savings will be effected
16 in New York, it is reasonable to assume that at least some
17 part of them should redound to the benefit of New York
18 consumers."

19 **Q. HAS BA-NY REFLECTED THE COST SAVINGS THAT WILL RESULT FROM**
20 **THE FORTHCOMING BELL ATLANTIC/GTE MERGER INTO THE**
21 **DEVELOPMENT OF ITS CLAIMED UNE COSTS?**

22 **A. No. BA-NY states on page 94 of its Panel Testimony revised**
23 **2/24/00 that, "It should be noted that there have been no**

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

merger savings associated with Bell Atlantic and GTE assumed in the development of the ACFs, since at this point they cannot be quantified with sufficient precision for cost-study purposes in view of the uncertainty concerning the terms and conditions on which the merger will be approved, whether anticipated efficiencies will in fact be achieved, and so forth. Such savings can only be determined with sufficient certainty for cost study purposes after they have been achieved or are well on their way to achievement." BA-NY, of course, previously used similar arguments in an attempt to dismiss the certainty of the cost savings from the NYNEX/Bell Atlantic merger. Significantly, and as shown in the 2/7/2000 testimony of Thomas R. LoFricso, the NYNEX/Bell Atlantic merger produced costs savings 1.83 times higher than initially anticipated.

Q. HOW SHOULD THE COST SAVINGS THAT WILL RESULT FROM THE FORTHCOMING BELL ATLANTIC/GTE MERGER BE CONSIDERED IN DEVELOPING BA-NY'S FORWARD-LOOKING ECONOMIC COSTS FOR UNES?

A. One approach calls for modifying BA-NY's cost study and discounting UNE rates based on an expectation of merger savings. Such an approach was advocated in Mr. LoFrisco's direct testimony. In modifying and restating BA-NY's cost study, however, we have not taken this approach. We did

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1 not modify BA-NY's claimed UNE costs at all to account for
2 cost savings that will result from the forthcoming Bell
3 Atlantic/GTE merger. By not making these modifications, we
4 believe we impute a degree of conservatism in our
5 restatement of BA-NY's UNE costs. Once the merger actually
6 closes, the Commission should consider further reductions
7 in BA-NY's UNE rates in order to account for any
8 incremental reductions in BA-NY's UNE costs that have not
9 been captured.

10
11 Summary Of Loop Costs Restatement

12
13 **Q. PLEASE SUMMARIZE THE RESULTS OF YOUR RESTATEMENT OF BA-NY'S**
14 **CLAIMED LOOP COSTS.**

15 **A.** After making those corrections that can be made within the
16 construct of the BA-NY cost study as described above, BA-
17 NY's UNE loop results are below the levels developed by
18 the AT&T/MCI WorldCom UNE 2 Cost Study. This is not an
19 endorsement of the BA-NY link model - it still suffers from
20 a host of fundamental problems, most notably the
21 unsupported engineering survey data, that cannot be
22 corrected. The table below compares BA-NY's claimed

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

statewide loop costs with the loop costs produced by our
restatement of BA-NY 's cost study.²⁴

**Summary of Loop Results From AT&T's Restatement of BA-NY's
Cost Study**

New York Statewide Averages

Loop Type	BA-NY	AT&T Restated	Difference
2-Wire Analog	\$17.03	\$6.12	(\$10.91)
2-Wire Digital	\$25.23	\$10.24	(\$14.99)
4-Wire Analog	\$37.40	\$14.63	(\$22.77)
4-Wire Digital	\$152.37	\$71.59	(\$80.78)

The next table compares BA-NY's claimed 2-Wire Analog loop
costs for its proposed Manhattan, Major Cities and Rest of
State rate zones with the loop costs resulting from our
restatement of BA-NY's cost study.

**Summary of Loop Results from AT&T's Restatement of
BA-NY's Cost Study**

2 Wire Analog Loops by Density Zone

2 Wire Analog Loop	BA-NY	AT&T Restated	Difference
Manhattan	\$12.54	\$4.06	(\$8.48)
Major Cities	\$15.94	\$5.81	(\$10.13)
Rest of State	\$24.13	\$8.70	(\$15.44)

²⁴ The restated BA-NY loop cost results shown on the following two tables are for loops assuming an integrated interface. As noted above, BA-NY's proposal that the Commission should also establish substantially higher loop rates assuming a universal interface should be rejected summarily. Nevertheless, our full restatement of BA-NY's claimed loop costs (ATTACHMENT 8 to his reply testimony) also addresses loops assuming a universal interface.

**6/26/2000 Panel Reply Testimony of AT&T
Case 98-C-1357**

1

2 ATTACHMENT 8 to this reply testimony sets forth all of the
3 loop cost results in our restatement of BA-NY's cost study.
4 The calculations and workpapers underlying our restatement
5 of BA-NY's loop costs are contained in ATTACHMENT 29 to
6 this reply testimony.

7